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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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DR. KENNETH M. STONE, CPA
Internal Audit Executive

November 5, 2008

Marlene Hodges, Executive Director
COVAM Community Development Corporation, Inc.
1625 O'Fallon
St. Louis, MO 63106

RE: Review of COVAM Community Development Corporation, Inc., Community
Development Block Grant (CDBG), Contract #07-11-03, CFDA #14.218
(Project #2008-CDA42)


Dear Ms. Hodges:

Enclosed is a report of our fiscal monitoring review of COVAM Community Development Corporation, Inc. (Agency), CDBG – Simmer Youth Employment Program, for the period June 1, 2007 through August 31, 2007. The scope of a fiscal monitoring review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of COVAM Community Development Corporation, Inc. Our fieldwork was completed on May 19, 2008.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the City of St. Louis Community Development Administration (CDA) to provide fiscal monitoring to all grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,


Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Jill Claybour, Acting Executive Director, CDA
Lorna Alexander, Special Assistant for Development, CDA



CITY OF ST. LOUIS

COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)

COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

CONTRACT #07-11-03

CFDA #14.218

FISCAL MONITORING REVIEW

JUNE 1, 2007 THROUGH AUGUST 31, 2007

PROJECT #2008-CDA42

DATE ISSUED: NOVEMBER 5, 2008

***Prepared by:
The Internal Audit Section***



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

TABLE OF CONTENTS

<u>Description</u>	<u>Page(s)</u>
INTRODUCTION	
Background	1
Purpose	1
Scope and Methodology	1
Exit Conference	1
Management's Responses	2
CONCLUSION AND SUMMARY OF OBSERVATIONS	
Conclusion	3
Status of Prior Observations	3
A-133 Status	3
Summary of Current Observations	3
DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES	4-6

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

INTRODUCTION

Background

Contract Name: COVAM Summer Youth Employment Program

Contract Number: 07-11-03

CFDA Number: 14.218

Contract Period: June 1, 2007 through August 31, 2007

Contract Amounts: \$30,000 (\$29,927.24 Revised)

This contract provided the Community Development Block Grant (CDBG) funds to COVAM Community Development Corporation, Inc. (Agency) for the Summer Youth Employment Program for 20 youths ages 14-18 in the Carr Square, O'Fallon, Vaughn and Murphy Park neighborhoods in the North St. Louis.

Purpose

The purpose of our review was to determine the Agency's compliance with federal (including OMB Circular A-133), state and local CDA requirements for the period June 1, 2007 through August 31, 2007 and make recommendations for improvements as necessary.

Scope and Methodology

We made inquiries regarding the Agency's internal controls relating to the grant administered by Community Development Administration (CDA), tested evidence supporting the reports the Agency submitted to CDA and performed other procedures considered necessary. Our fieldwork was completed on May 19, 2008.

Exit Conference

An exit conference was conducted at the Agency on August 14, 2008. The Agency was represented by the executive director. The Internal Audit Section was represented by Jeremy Holtzman, Auditor II, and Shania Woodhouse, Auditor I.

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
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COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

INTRODUCTION

Management's Responses

The management's response to the observation #1 noted in the report was received from the Agency on October 6, 2008. This response has been incorporated into the report (see "Detailed Observations, Recommendations and Management Responses" section on page four of this report.) The Agency did not respond to the remaining observations and recommendations noted in the report.

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

CONCLUSION AND SUMMARY OF CURRENT OBSERVATIONS

Conclusion

The Agency did not fully comply with federal (including OMB Circular A-133), state and local CDA requirements.

Status of Prior Observations

This is the first contract the Agency entered into with CDA, and, therefore, there were no previous observations.

A-133 Status

The Agency did not expend \$500,000 or more in federal funds for fiscal year 2007. The Agency, therefore, is not required to have a single audit in accordance with OMB Circular A-133.

Summary of Current Observations

We made recommendations for the following observations, which if implemented, could assist the Agency in fully complying with federal, (including OMB Circular A-133), state and local CDA requirements.

1. Agency received reimbursements for unallowable Federal Insurance Contribution Act (FICA) taxes
2. The Agency did not file IRS Form 990 in a timely manner
3. The Agency does not require two duly authorized signatures on checks

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

**DETAILED OBSERVATION, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES**

**1. Agency received reimbursements for unallowable Federal Insurance
Contribution Act (FICA) taxes**

Employer is not required to withhold FICA from the pay of an individual who is being treated as an independent contractor (self-employed person.)

The Agency requested and received reimbursement, in error, in the amount of \$2,127.05 for FICA, for the pay periods June 22, 2007 through August 3, 2007, for individuals who worked as independent contractors on the Agency's Summer Youth Employment Program. The Agency issued IRS Form 1099-Miscellaneous to these individuals.

Recommendation

We recommend the Agency repay CDA for the reimbursements it received, in error, for FICA by remitting a check for \$2127.05 to the Comptroller's Office/Federal Grants Section, 1114 Market Street, Room #648, St. Louis, MO 63101.

Management's Response

We have reviewed the Fiscal Monitoring Report and supporting documentation for the above-referenced grant, which supported COVAM's 2007 Summer Youth Employment Program. We appreciate the constructive feedback and suggestions regarding some of our accounting practices, and we will discuss these items carefully with our external auditors.

We agree that COVAM owes CDA a refund of \$2,127.05 for a line item in the grant budget titled "FICA" that was not spent. Please find a check enclosed. Thank you for your patience in resolving this matter. We hope to work with CDA again in the future.

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

**DETAILED OBSERVATION, RECOMMENDATIONS,
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2. The Agency did not file IRS Form 990 in a timely manner

All 501(c) (3) non-profit organizations with gross receipts over \$25,000 are required to file an IRS Form 990 annually. This form is due on the 15th day of the fifth month after the end of the organization's fiscal year. An organization may request as many as two three-month extensions.

The Agency filed IRS Form 990 for the calendar year fiscal year 2006 on January 30 2008. The Agency filed two three-month extensions extending the filing due date to November 15, 2007. The Agency was late by 77 days in filing the Form.

IRS can enforce a penalty of \$20 per day, not to exceed the \$10,000.00 for organizations with revenues of \$1 million or less.

Recommendation

We recommend that the Agency file its IRS form 990, including any applicable requests for extension by the required filing dates.

Management's Response

The Agency did not respond.

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COVAM COMMUNITY DEVELOPMENT CORPORATION, INC.
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
FISCAL MONITORING REVIEW
JUNE 1, 2007 THROUGH AUGUST 31, 2007**

**DETAILED OBSERVATION, RECOMMENDATIONS,
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3. The Agency does not require two duly authorized signatures on checks

CDA Fiscal Procedures Manual requires the method of disbursement for expenditures shall be pre-numbered checks signed by the chief executive officer and the financial officer or any two duly authorized officers. This is to enhance internal controls and cash management.

The Agency did not require at least two authorized signatures due to the size of the organization.

Internal controls regarding cash management are at risk and could be adversely impacted. In addition, possible delays or suspensions of reimbursement funds to the Agency.

Recommendation

We recommend the Agency comply with CDA requirements and have all its disbursement checks for expenditures funded by CDA signed by two authorized officers. We also recommend the agency improve procedures that require dual signatures in order to maintain adequate review and control of disbursements.

Management's Response

The Agency did not respond.